



Director of
Central
Intelligence

Top Secret

OCC/cable Ed.

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National Intelligence Daily (Cable)

2 July 1982

Top Secret

CPAS NIDC 82-154C

2 July 1982

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Copy 402

Approved For Release 2007/09/13 : CIA-RDP84T00301R000400010109-3

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ISRAEL-LEBANON: Stalemate Still Continuing

(Information as of 0030 EDT)

The Israelis kept up their psychological pressure yesterday on West Beirut amid signs that the Lebanese-PLO talks have essentially reached an impasse. The PLO continues to show no sign of compromise on its demand to be allowed to keep at least a symbolic military presence in Lebanon.

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//Israeli troops surrounding Beirut are estimated at about 14,000.

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//The Israeli 35th Paratroop Brigade is also in the Beirut area.

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[] The Israelis have recently replaced US M-60 tanks in their armored units around Beirut with Israeli-built Merkavas. The M-60 tanks reportedly have been deployed along the main highway east of Beirut.//

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//North of the highway, the Israelis reportedly have penetrated the Metn region as far as Brummana, and the Syrians have fallen back to positions between Hammana and the Dayr al Baydar Pass.

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[] Syrian forces in the Dayr al Baydar area are mining roads and constructing roadblocks in anticipation of an Israeli attack.//

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Comment: Israel's mock air attacks on Beirut and its closure of the main highway east of the city yesterday were intended to signal the Palestinians and Syrians in West Beirut that time is running out. In the six days since the cease-fire, Israel has been assembling and equipping its task force on the periphery of Beirut for an eventual assault on the western sector of the city. These forces are now prepared for the attack and ready to move if the order is given.

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PLO Standing Fast

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Comment: The Palestinians are continuing to hold firm to their demand for at least some remaining military presence in Lebanon and appear to believe the Lebanese Government will eventually accede. Palestinian forces in West Beirut have made preparations for an Israeli assault, but their poorly contrived defenses will do little to stop a massive Israeli air and ground attack--if and when it comes.

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Phalange Moves

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Jumayyil flew to Saudi Arabia today at the invitation of the Saudi Government to discuss the Lebanese situation with a group of Arab League foreign ministers meeting at Taif. Phalange radio claims that Jumayyil will also meet with King Fahd.

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Comment: Jumayyil's trip to Saudi Arabia is his first major political visit in the Arab world and is a further indication that the Saudis, and probably other moderate Arabs, recognize his emergence as Lebanon's leading political figure and the need to establish formal contact with him despite his ties with Israel. The Saudis will urge Jumayyil to allow the PLO an "honorable" settlement in Beirut and to reconcile with Lebanese Muslims. In return, they will probably try to facilitate direct talks between him and Syrian Foreign Minister Khaddam on reaching a Phalange-Syrian accommodation.

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Economic Impact in Israel

The invasion has cost \$1 billion in direct costs and an additional \$1.5 billion in lost output, according to Chairman Lorincz of the Knesset Finance Committee; Finance Minister Aridor has put total costs at \$2-3 billion. Lorincz said a supplemental budget will be needed to cover war costs and higher inflation. The military has increased the length of duty of regular forces to release some reserves.

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Comment: The Israeli Government apparently is preparing the public for new taxes in addition to those imposed last month. Aridor probably wants to mitigate the impact on inflation by raising taxes as much as is politically feasible, but the deficit for the current fiscal year will still be larger than originally planned. The move to release reserves indicates the government is becoming concerned about the drain on the economy.

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Soviet Activity

The Soviets called on the Arabs in a TASS commentary yesterday to use the "oil weapon" against Israel and the US. Another TASS report has publicized a Jordanian newspaper's commentary that defended the USSR's cautious response to the crisis. It replayed statements that Moscow

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has never promised that the USSR would send Soviet armies to defend any Arab country and that it never claimed it would fight "in place of" liberation movements. [redacted]

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Moscow has also sought to rebut the widespread criticism of Syria's Soviet-made weapons by asserting that Soviet ground equipment had demonstrated its effectiveness during the fighting. It did not mention surface-to-air missiles or aircraft. [redacted]

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Comment: The TASS commentary is Moscow's first appeal during the current crisis for an oil embargo. The Soviets raised the idea during and after the war in 1973. [redacted]

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The defensive tone and bluntness of the other TASS articles reflect heightened sensitivity to the more frequent Arab charges that the USSR has not supported Syria and the Palestinians and that its weapons are inferior. The Soviets probably are also concerned that the criticism of their weapons could undermine hard currency arms sales. [redacted]

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USSR: Clarification of INF Moratorium

//A Soviet representative to the INF talks has specified the conditions under which Moscow might end its moratorium on INF deployments.//

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//Last March, President Brezhnev stated a moratorium would be in force until an INF agreement is reached or unspecified "practical preparations" are made to deploy US Pershing IIs and ground-launched cruise missiles in Western Europe. On Tuesday, a Soviet representative in Geneva defined such preparations as the actual presence of these US systems in Western Europe.//

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//Delivery of cruise missiles to the UK is to begin next spring, and deliveries of Pershing IIs to West Germany are to begin in the summer of 1983. In both countries, warheads are to begin arriving several months after the missiles.//

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Comment: //The Soviet representative's statement suggests the USSR is planning to continue its moratorium into at least early 1983. The Soviets want to maintain their pressure against US INF deployments, and they probably will continue over the next few months to be deliberately vague in their public comments on the conditions for continuing their moratorium.//

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//As the scheduled delivery dates for the missiles approach, however, the Soviets may threaten to terminate the moratorium when the missiles arrive. This would be especially the case if they are not satisfied with the progress of the INF talks.//

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CHINA: Party Sets Agenda

A People's Daily editorial yesterday commemorating the 61st anniversary of the founding of the Chinese Communist Party set party priorities for the rest of the year and announced plans for the long-awaited 12th Party Congress. [redacted]

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//The editorial reported government and party reorganization and the crackdown on corruption will continue to receive top priority. The party congress will be held before the end of this year and will be followed by a rectification campaign. Party Chairman Hu Yaobang recently told foreign visitors that the congress would convene in September or October.// [redacted]

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Comment: The congress, originally intended for early 1981, was delayed repeatedly while Vice Chairman Deng Xiaoping and his associates sought agreement on key reform issues and maneuvered to ensure their political dominance. The government and party reorganization in May helped clear the way for Deng, but much work remains before the congress can be held. [redacted]

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Hard bargaining will be required to get party conservatives to agree with moderate leaders on the membership of a new Central Committee and Politburo. In addition, the credentials of provincial delegates selected earlier will have to be reexamined and delegates opposed to the reform policies will be replaced. [redacted]

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The rectification drive will be aimed at purging remaining "Gang of Four" sympathizers and other politically unreliable officials. Official guidance has stressed that party rectification will be a long, slow process and that care must be taken to avoid disrupting production. [redacted]

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WESTERN EUROPE - TURKEY: Human Rights Action

//Denmark, France, the Netherlands, Norway and Sweden yesterday requested an investigation of Turkish human rights practices by the European Human Rights Commission.// [redacted]

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Comment: //The announcement of the joint action was carefully worded in order to be as inoffensive to Turkey as possible. It probably reflects French and Swedish reluctance to participate in a strong rebuke for fear of further alienating Turkey from Western Europe.// [redacted]

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//The Commission, rather than proceed to an immediate investigation, may first hold hearings for all parties to air their views and suggest alternatives for monitoring the human rights situation in Turkey. If Turkey and the plaintiff states fail to agree on alternative measures, the Commission would then undertake a formal investigation.// [redacted]

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//Ankara may grudgingly participate in initial Commission hearings, but its impatience with West European criticism suggests it is unlikely to approve any monitoring proposals. The Turks previously rejected a French suggestion that European committees oversee their progress in human rights and restoration of democracy.// [redacted]

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//A refusal by Ankara to cooperate with an investigation would increase pressure to expel Turkey from the Council of Europe. If the Turks participate in the investigation and simultaneously make real progress toward restoring democracy, the final Commission judgment could be positive.// [redacted]

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UK: Decision on Social Democratic Party Leader

//The outcome of the Social Democratic Party balloting to choose a leader, which will be announced today, will have a decisive impact on the fledgling party's direction.// [redacted]

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//Early front-runner Roy Jenkins, a former deputy leader of the Labor Party and Chancellor of the Exchequer, is facing a powerful challenge from former Labor Foreign Secretary David Owen. Owen's chances were strengthened by the extensive publicity he received during the conflict with Argentina, when he generally supported the Thatcher government while Jenkins remained silent.// [redacted]

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Comment: //Jenkins and Owen disagree on what direction to steer the party, which had made inroads against Labor and the Tories until infighting and the crisis over the Falklands intruded. Jenkins favors close ties with the Liberals and wants the Social Democratic - Liberal alliance to be a centrist force. Under his leadership, the alliance would be more likely to appeal to disillusioned Conservatives and cooperate with the Tories should it hold the balance of power after the next general election.// [redacted]

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//Owen believes the Social Democrats should retain a distinct identity and strive to replace Labor as the alternative to the Conservatives. Owen would be more willing to cooperate with moderate Laborites after the next election.// [redacted]

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//A victory for Jenkins would represent a safe if uninspired choice. His affinity for the Liberals and his seniority in national politics would allow him to cooperate more readily with Liberal leader Steel.// [redacted]

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//Owen's strategy probably offers more promise for long-term Social Democratic gains. His policy views, reputation for arrogance, and junior standing would make cooperation with the Liberals more difficult.// [redacted]

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//If Owen wins, he may come under pressure to find a compromise by offering to support Jenkins as leader of the alliance, while he and Steel become deputies. Jenkins, however, probably would seek assurances of authority that Owen would find unacceptable.// [redacted]

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MAURITIUS: Evolving Foreign Policy

The new Jugnauth government is cautiously turning foreign policy leftward, cultivating special relationships with France and India, and avoiding close identification with either superpower.

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The government has announced that it intends to pursue a policy of nonalignment but claims it will maintain good relations with traditional Western friends. It will, however, also support various liberation movements. Indian Prime Minister Gandhi and French Minister of Cooperation and Development Cot will visit Mauritius next month.

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The Mauritian Foreign Minister has informed the British that only navies of Indian Ocean littoral states would be allowed to make port calls. He noted that France--which considers nearby Reunion Island an integral part of its territory--is in this category.

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Prime Minister Jugnauth, whose party received extensive Libyan aid during the election campaign, plans to attend the OAU summit in Tripoli next month.

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Comment: The regime's leftist ideology is tempered by a pragmatic recognition of the country's economic straits and its need to avoid alienating potential Western aid donors. The government recognizes the Soviets are unwilling to provide significant help, and it probably hopes to win new aid and diplomatic support from both Paris and New Delhi. It also expects Gandhi's visit to calm fears of the island's Hindu majority that government policies will be pro-Libyan and pro-Muslim.

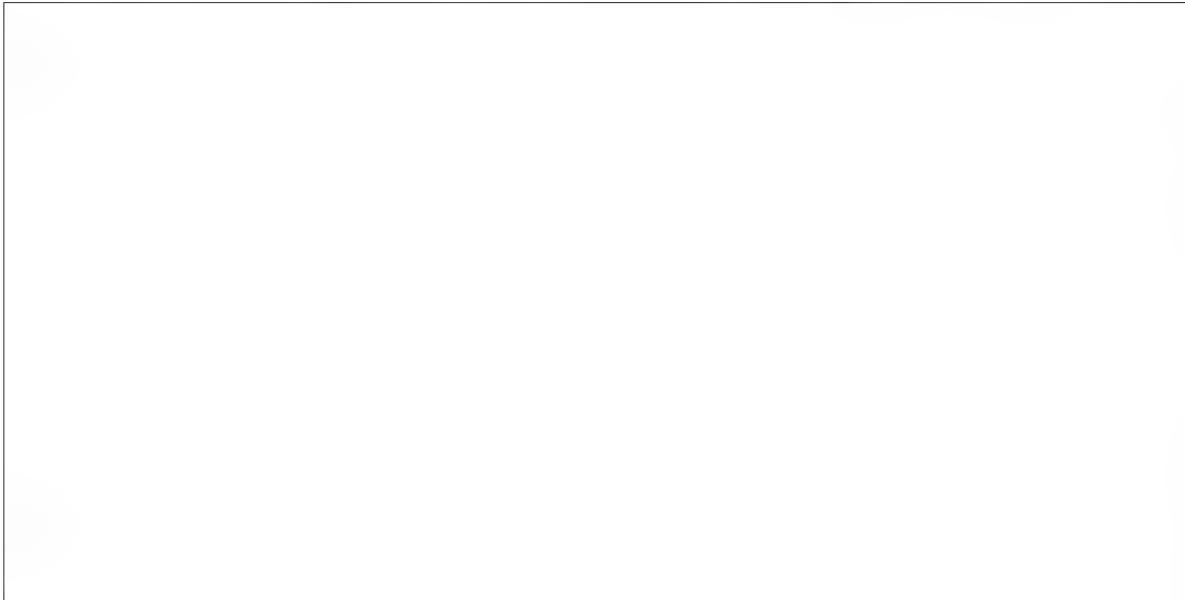
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The new policy on naval ship calls will leave the US without naval access to any of the island states in the southwestern Indian Ocean and the USSR with only limited access in Seychelles. Mauritius is likely to link its naval access policy with its call for eventual demilitarization of Diego Garcia and support for the Indian Ocean zone-of-peace concept. The government probably believes limited criticism of the US military presence will not cause Washington to cut off economic aid, which amounted to \$7.5 million this year.

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USSR - EAST GERMANY: More Cutbacks in Oil Deliveries

//A member of the Central Committee of the East German Communist Party reportedly told party functionaries in mid-June that Soviet oil deliveries would be cut by another 20,000 barrels per day. Along with previous cuts, this will reduce deliveries to 320,000 barrels per day--less than 85 percent of the amount originally planned for this year. Drastic reductions in fuel consumption have already been ordered, and party Secretary Mittag has described energy conservation as the country's most urgent economic requirement.//

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Comment: //This reduction suggests the Soviets intend to increase their own sales for hard currency despite a leveling off of production. The Soviets also may be making additional cuts in deliveries to Czechoslovakia and Hungary, which, on top of those announced last year, would further aggravate economic difficulties in Eastern Europe.//

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SPECIAL ANALYSIS**ARGENTINA: Challenges Facing Bignone**

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General Bignone, who assumed the presidency yesterday, faces a nation disillusioned and divided over the loss of the Falklands and suffering economic distress. Moreover, public confidence in the government has been eroded by the military's incompetence in waging the war. Civilians are highly suspicious of Bignone, and he has managed thus far to buy their support only with firm promises to schedule elections and lift the ban on political activity.

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The military is divided over Bignone's selection. The Air Force and Navy, who opposed his appointment over civilian candidates, have dissociated themselves from the regime. In the Army, splits have developed between senior and second-echelon generals over the conduct of the war and future economic and political policies.

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Initial Moves

Bignone has not yet spelled out his policies, but his first steps suggest he will try to chart a moderate course. His cabinet is composed largely of civilians, many of whom have good connections with political parties.

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The President has not been able to bring the Navy and Air Force back into the junta, but his policy changes have earned at least their tacit approval for his administration. Dagnino Pastore, Bignone's choice to revive the economy, reportedly has adopted balanced measures to promote exports, grant moderate wage hikes, and increase social assistance spending.

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Nonetheless, a smooth transition will be increasingly difficult. The Multipartidaria, a coalition of five leading political parties, will demand more populist policies.

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The military will urge increased spending to rearm. Business will lobby for faster growth, increased state intervention, and more nationalistic economic policies. External creditors will demand continued economic restraint to restore Argentina's international credit-worthiness. [redacted]

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Growing criticism of the military's performance during the war will almost certainly cause civilians and dissident officers to put more pressure on Bignone to purge members of the high command who put him in office. Newly formed political parties, with no target other than the military government, are likely to be less accommodating, especially if the government is forced to back away from even modest concessions. Public demonstrations, if repressed, will further isolate the regime and threaten Bignone's ability to remain in power. [redacted]

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Economic Pressures

Economic woes will add to Bignone's problems. Argentina's severe recession--economic activity declined 6 percent in the first quarter--has worsened in the face of export disruptions, investment slowdowns and capital flight. [redacted]

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Moreover, increased military spending, the relaxation of tight money policies and the recent devaluation will push inflation beyond the current 140-percent level. The loss of foreign exchange reserves and the near cessation of longer term foreign credit continues to imperil the country's ability to service its debt, which is mainly owed to US bankers. [redacted]

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Easing austerity to spur economic recovery would smooth initial discontent. But it would set the stage for even higher inflation--possibly to the record levels of the mid-1970s--that would further erode Bignone's thin civilian support. [redacted]

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Trade surpluses will diminish unless offset with large devaluations. This would increase chances for a major debt rescheduling. [redacted]

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Foreign Policy Prospects

Argentina reportedly is anxious to normalize relations with the US, but its experiences during the conflict probably will move the government toward closer ties with the Third World and other nonaligned countries, especially in multilateral forums. US commercial interests would be adversely affected by continued Argentine import restrictions, possible reprisals against multinational firms, or debt rescheduling. [redacted]

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To help calm criticism of the Army, Bignone is likely to maintain diplomatic pressure on the UK over the Falklands. In addition, he may stall negotiations with Chile on the Beagle Channel dispute. [redacted]

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To recoup national prestige, Bignone or another successor regime could accelerate efforts to develop a nuclear weapons capability. Argentina's search for new and advanced weaponry could provoke an arms race throughout South America. If unable to obtain these weapons from Western sources, the Argentines might consider selectively purchasing military equipment from the USSR. [redacted]

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